MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BBF3284 – INTERNATIONAL FINANCE

(All sections/Groups)

04 OCTOBER 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 1 section.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

STRUCTURED QUESTIONS (100 MARKS)

QUESTION 1

(a) Define comparative advantage in the context of international trade. (5 marks)

(b) Discuss the impact of trade barriers, such as tariffs and quotas, on comparative advantage and international trade. (5 marks)

(c) A British company exports goods to the U.S. and expects to receive a USD $5,000,000 payment in 120 days. The spot exchange rate is $1.25/£ and the 120-day interest rates are 12.8% per annum for pound deposits and 8% per annum for dollar deposits. The 120-day forward rate is $1.30/£.

Define transaction exposure and how can the company hedge this receivable using a forward market and money market hedge? Show your calculations. (15 marks)

(Total: 25 marks)

QUESTION 2

(a) The Country A economy has run persistent current account deficits over the past decade, reaching over 2% of GDP annually. The deficits are financed through borrowing from abroad and foreign investment inflows. Recently, the deficit has started widening again after a brief improvement during the pandemic. Concerned about the economy's reliance on external financing, you represent the Reserve Bank of Country A and the Treasury are considering policy options to curb the growing current account gap. Illustrate **FIVE (5)** policies. (20 marks)

(b) The expected inflation of Country X is 5% while Country Y has inflation of 2% over the same period. Last year, the XY exchange rate was 10 units of X per 1 unit of Y. Based on relative purchasing power parity (PPP), what should this year's exchange rate be? Assuming that you are from Country X. (5 marks)

(Total 25 marks)

Continued...

QUESTION 3

(a) Meet Sarah, a seasoned currency trader renowned for her expertise in navigating the fast-paced foreign exchange market. As a keen observer of exchange rates, Sarah discovers a unique and potentially profitable triangular arbitrage opportunity. Excited by the prospect of a risk-free trade, she sets out to seize this rare moment of triumph. The direct exchange rates are as follows:

USD/EUR = 0.80
EUR/GBP = 1.20
USD/GBP = 0.95

Show your calculations (hints: you have USD1,000,000). (10 marks)

(b) What is the difference between leading and lagging in managing transaction exposure? (5 marks)

(c) A Malaysian company, ABC Sdn Bhd, is considering a project in Singapore and another in Indonesia. The company's capital structure is 40% equity and 60% debt. The risk-free rate is the only varying factor between the two projects where the risk-free rate in Singapore is 2.5%, and in Indonesia is 6.5%. The company's borrowing rate is 8%, and its tax rate is 25%. The market risk premium is 5%, and the company's beta is 1.2. Calculate the weighted average cost of capital (WACC) for both projects. (10 marks)

(Total: 25 marks)

QUESTION 4

(a) ABC is a leading American electric vehicle manufacturer that has seen tremendous growth recently. While it is headquartered in Austin, Texas, ABC's shares also trade on the Nasdaq stock exchange. In efforts to further expand its investor base globally, ABC is now considering cross-listing its shares on additional foreign stock exchanges like the London Stock Exchange.

(i) What is cross-listing? (4 marks)

(ii) Why does ABC choose to cross-list their shares? Explain **FOUR (4)** possible reasons. (16 marks)

(b) A Product J costs $5.15 in the U.S. and £2.29 in the U.K. If the spot exchange rate is £1 = $1.30, is the pound overvalued or undervalued? (5 marks)

(Total: 25 marks)

End of Paper